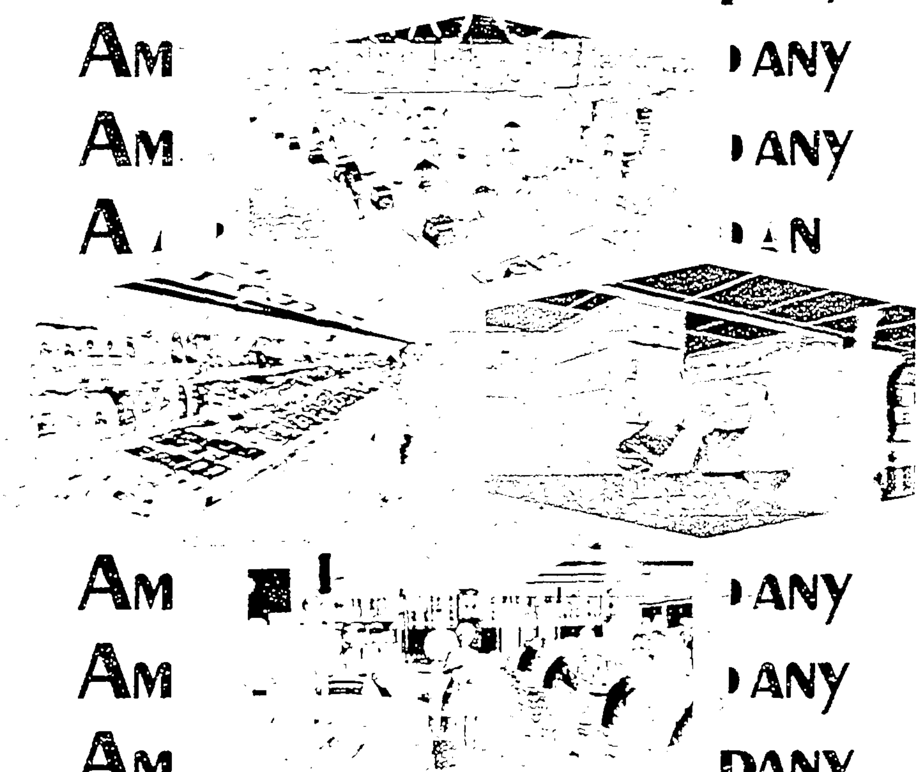
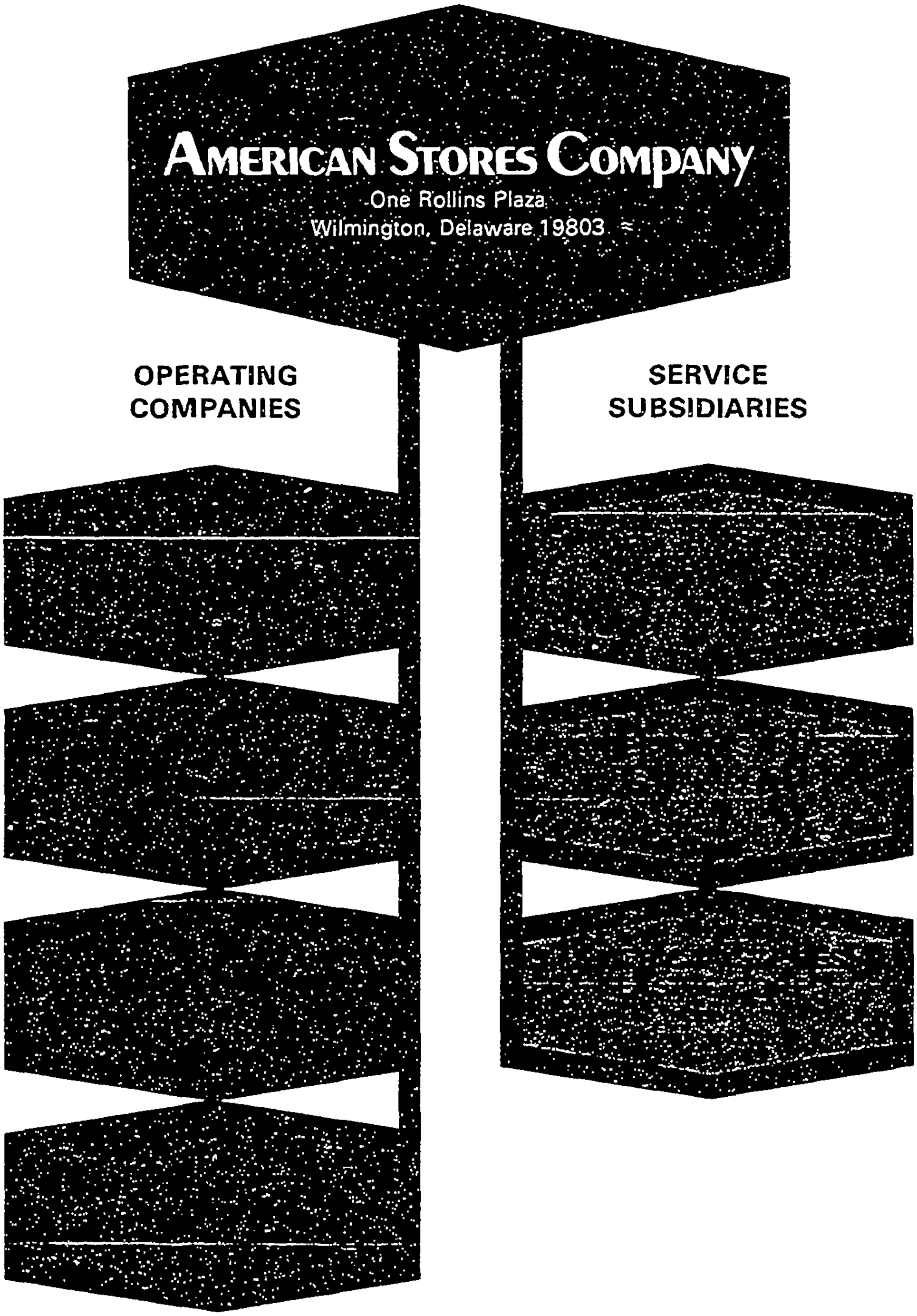
AMERICAN STORES COMPANY

AMERICAN STORES COMPANY
AMERICAN STORES COMPANY
AMERICAN STORES COMPANY
AMERICAN STORES COMPANY
AMERICAN STORES COMPANY
AMERICAN STORES COMPANY
AMERICAN STORES COMPANY
AMERICAN STORES COMPANY
AMERICAN STORES COMPANY



AMERICAN STORES COMPANY

Annual Report 1974


AMERICAN STORES COMPANY
One Rollins Plaza
Wilmington, Delaware 19803
OPERATING COMPANIES
SERVICE SUBSIDIARIES

CONTENTS

AMERICAN STORES COMPANY

DIRECTORS—AMERICAN STORES COMPANY

Paul J. Cupp
Chairman of the Board

William R. Deeley
President and Chief Executive Officer
Alpha Beta Company

Edward J. Dwyer
Chairman of the Board
ESB Incorporated

Albert J. Faulhaber
Senior Vice President
American Stores Group Services, Inc.

James A. Hamill
Executive Vice President
Acme Markets, Inc.

Peter F. McGoldrick
President and Chief Executive Officer
Acme Markets, Inc.

Thomas T. Oyler
Executive Vice President

John R. Park
President and Chief Executive Officer

James K. Robinson, Jr.
Senior Vice President
American Stores Group Services, Inc.

Isadore M. Scott
Chairman of the Board
Tri-Institutional Facilities, Inc.

Orvel Sebring
Partner, Morgan, Lewis & Bockius

CORPORATE OFFICERS—AMERICAN STORES COMPANY

Paul J. Cupp
Chairman of the Board

John R. Park
President and Chief Executive Officer

Thomas T. Oyler
Executive Vice President

John W. Edstrom
Secretary

John G. C. Fuller
Treasurer

Doris M. Ulrich
Assistant Secretary

CORPORATE OFFICERS—AMERICAN STORES GROUP SERVICES, INC.

John R. Park
President and Chief Executive Officer

Thomas T. Oyler
Executive Vice President

Albert J. Faulhaber
Senior Vice President
Engineering

James K. Robinson, Jr.
Senior Vice President
Real Estate

John G. C. Fuller
Vice President—Finance

Thomas H. Sunday
Vice President—Law

Rowland G. Weber
Vice President—Insurance & Employee Benefits

C. Herbert Fry
Controller

John W. Edstrom
Secretary and Counsel

J. Kennedy W. Barclay
Assistant Vice President
Engineering

CORPORATE OFFICERS OF PRINCIPAL OPERATING COMPANIES

ACME MARKETS, INC.

President and Chief Executive Officer	Peter F. McGoldrick
Executive Vice President	James A. Hamill
Vice Presidents	Ralph S. Bromer, Jr. William A. Dreibelbis Robert W. McCahan Thomas H. Sunday James A. Trolier
Controller	Robert G. Bunch
Treasurer	Robert W. Simpson
Assistant Secretary	John M. Doerr

ALPHA BETA COMPANY

President and Chief Executive Officer	William R. Deeley
Senior Vice Presidents	Durward W. Black Thomas W. Field Thomas W. King
Vice Presidents	Lyle V. Boyd Frederic S. Cantrell Joseph E. Davis Edwin R. Markson
Secretary	Ruth H. Thomas
Assistant Secretary	Robert O. Kuchenbecker

REA AND DERICK, INCORPORATED

Chairman of the Board and Chief Executive Officer	Gorden H. Griffith
President	Paul A. Morelock
Vice Presidents	Clarence J. Everett John L. Hurst Lewis M. Swinger
Secretary	William Fuller
Assistant Secretary	Joseph W. Bloom

HARDEE NORTHERN INC.

President and Chief Executive Officer	A. Balfour Brehman, Jr.
Controller	Donald L. McFarland

1974 HIGHLIGHTS

Fiscal years ended March 30, 1974 and March 31, 1973

	1974	1973
Sales	**$2,320,322,000**	$2,025,300,000
Earnings before Extraordinary Charges	**$18,063,000**	$3,601,000
Extraordinary Charges	**—**	(2,585,000)
Net Earnings	**$18,063,000**	$1,016,000
Per Share Data:		
Earnings before Extraordinary Charges	**$5.19**	$1.03
Extraordinary Charges	**—**	(.74)
Net Earnings	**$5.19**	$ .29
Number of Shareholders	**15,732**	16,197
Number of Employees	**37,455**	36,429

RETAIL UNITS IN OPERATION

	1974	1973
Food Stores	**742**	717
Rea and Derick Stores	**91**	88
Hy-Lo Stores	**10**	10
Discount Department Stores	**6**	6
Alphy's and Hardee's Restaurants	**45**	42
Total Food Store Sales Area (square feet)	**10,058,000**	9,523,000

REPORT TO SHAREHOLDERS

Fiscal 1974 was a year of improvement and progress as well as one of significant change. The sales increase and profit improvement were particularly rewarding to us because the year was in many ways a difficult one. Industry problems included continuing intensive competition during a period of government-imposed wage and price controls, rising operating costs and product shortages.

Sales for the 52 weeks ended March 30, 1974 established a new record of $2,320,322,000, a 14.6% increase over the previous year. Earnings rebounded to a record $18,063,000 from the previous year low of $3,601,000 before extraordinary charges of $2,585,000. Encouraged as we are with this earnings gain, a great opportunity remains for further improvement because this profit as a per cent to sales amounted to only 0.78%.

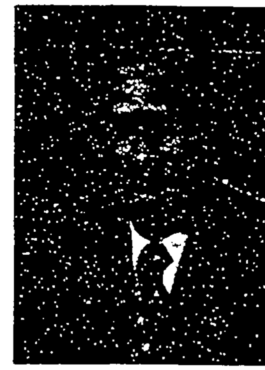
With the activation of American Stores Company as the parent company of Acme Markets, Inc., Alpha Beta Company, Rea and Derick, Incorporated and Hardee Northern Inc., the change of name authorized at the last annual meeting and the corporate restructuring described in the proxy statement for the meeting became a reality on December 29, 1973. The new organizational structure has enabled us to be even more effective in response to changing conditions in the business environment. Further information about the operating companies and the service subsidiaries appears later in this report.

The Board of Directors increased the quarterly dividend rate from $0.25 to $0.30 per share effective with the January 2, 1974 payment. This quarterly rate was raised again for the July 1, 1974 payment from $0.30 to $0.40 per share. The Board is always conscious of the problem of adequate dividend considerations. These dividend increases are in recognition of the marked recovery in earnings, while at the same time giving consideration to the need for continuing a program of profitable growth.

The Company's fiscal year-end working capital of $103,128,000 represents an increase of $7,145,000 over the prior year. We believe that the current working capital position is adequate to support the expected strong sales growth during this fiscal year and also that the Company's internally-generated funds should be sufficient to meet the requirements of an aggressive store expansion program. With the exception of anticipated mortgage financing of the new Alpha Beta general merchandise distribution facility, no other outside financing is planned this year.

A number of uncertainties are present as we enter the new year. The well-considered discontinuance of government-imposed wage and price controls will release new inflationary pressures as our economy undergoes the necessary but difficult transition to free market conditions. Our people will be faced with building sales in a climate of consumer buying hesitancy. Worldwide problems of food shortages will be reflected in many practical difficulties in serving customers' needs and providing satisfactory values.


Paul J. Cupp


John R. Park

However, we are in excellent position to meet the challenge. The continuing favorable sales trend indicates customer acceptance of our merchandising programs. The extraordinary store closing program in the year ended March 31, 1973 relieved us of the cost of operating stores which had little potential to contribute to the profitability of the Company. Our present stores and those planned will offer the customer a wide variety of merchandise. Our dedicated people have the desire, experience and training to offer exceptional service, and the new corporate structure plus the strengthening and functional realignment of Acme Markets will help us to make further progress.

Respectfully submitted,

Paul J. Cupp

Chairman
Board of Directors

President
and Chief Executive Officer

Wilmington, Delaware
May 22, 1974

A YEAR OF REORGANIZATION AND PROGRESS

The name has a familiar ring!

A familiar ring, indeed! American Stores Company was a familiar name to millions of eastern food shoppers for 45 years—from prior to World War I until 1962, when the name was changed to Acme Markets, Inc. Even after that (in fact, up to the present time) many people referred to Acme as "the American Stores".

The name was first announced to the public on April 2, 1917, when The North American, a predecessor to The Philadelphia Inquirer, announced the organization of a grocery chain in Philadelphia under the name of American Stores Company. (The same edition of this paper reported that President Woodrow Wilson would go before Congress that day to ask for a declaration of war against Germany.)

Samuel Robinson was named president of the new organization which brought 1,223 grocery stores under one corporate management.

Later the chain was to grow to nearly 3,000 such stores, before the advent of the supermarket and fewer but larger retail units. In 1962 the corporate name was changed to Acme Markets, Inc., the name used on those supermarket-type stores in the East.

By 1973 the Company's business in the West through its wholly-owned subsidiary, Alpha Beta Acme Markets, Inc., had grown substantially. Other lines of business operated by subsidiaries had become a part of the Company. As the shareholders were advised at the last annual meeting, a restructuring of the corporate organization of the Company, under which operations would be carried on by wholly-owned subsidiaries, seemed advisable.

As of December 29, 1973, the corporate name of Acme Markets, Inc., a Delaware corporation, which had operated retail food markets in the East under the names "Acme Markets" and "Super Saver" and in addition owned all the outstanding stock of certain operating companies, including Alpha Beta Company, which became a part of the Company in 1961, and Rea and Derick, Incorporated, was changed to American Stores Company.

Coincidentally, the retail food operations conducted under the names "Acme Markets" and "Super Saver" and related activities were transferred to Acme Markets, Inc., a Pennsylvania corporation.

All of the retail food operations previously conducted by the Delaware corporation are now conducted by the Pennsylvania corporation, Acme Markets, Inc. The principal office of Acme remains at the same address, 124 North 15th Street, Philadelphia, Pennsylvania.

As a part of the restructuring, American Stores Company became a holding company, with investments in wholly-owned subsidiaries, including Acme Markets, Inc. (Pa.), Alpha Beta Company, Rea and Derick, Incorporated, and Hardee Northern Inc. The business of the Company, including relations with stockholders and appropriate legal and financial affairs of the Company, is conducted from the office of American Stores Company at One Rollins Plaza, Wilmington, Delaware.

Several other companies have been formed. These include American Stores Group Services, Inc., a Pennsylvania corporation, which maintains its office at Three Girard Plaza in Philadelphia. Through its officers and employees it performs various services under contract with American Stores Company and its affiliated companies. These services are basically staff in nature and include real estate planning and research, financial planning and forecasting, capital allocations, engineering and facility planning, insurance and employee benefits, accounting and taxes, legal matters, federal government relations, management development, and general policy formulation and coordination. Other wholly-owned subsidiaries of American Stores Company which became active as of the year-end include American Stores Realty Corp. and American Stores Leasing Corp., which also are located at the Girard Plaza address.

MEET OUR OPERATING COMPANY CHIEF EXECUTIVES

Peter F. McGoldrick, 44, became the president and chief executive officer of Acme Markets, Inc. on January 1, 1974. He has had more than 20 years' experience in all phases of food retailing, including meat management, buying, advertising, sales promotion, merchandising and general operations. Mr. McGoldrick was a group vice president with one of the leading food chains prior to joining Acme. A native of Boston and a graduate of Boston College, he received an MBA from the Harvard Business School. Mr. McGoldrick brings ability, experience and a dynamic quality to his leadership role at Acme.

William R. Deeley, 51, president and chief executive officer of Alpha Beta Company, our La Habra, California based supermarket and diversified retailing subsidiary, progressed through several important executive positions with that Company, becoming president in 1970. He is a 1948 graduate of Louisiana State University. Shortly thereafter he served for several years as an officer in the U.S. Army, in various staff and command functions. Mr. Deeley has played an inspiring role in the development of Alpha Beta Company as one of the nation's fastest growing food retailing operations, expanding from Southern California into the San Francisco Bay area, the Sacramento area and, more recently, into the rapidly growing Arizona market.

Gorden H. Griffith, 64, chairman of the board and chief executive officer of Rea and Derick, Incorporated, the Company's 91-store, eastern drug subsidiary, is a seasoned veteran in drug retailing operations. He joined Rea and Derick in 1932, as an assistant manager, shortly after graduating from the Philadelphia College of Pharmacy and Science. A registered pharmacist, Mr. Griffith keeps abreast of both the professional and the economic aspects of the drug business. He has spent his entire career with Rea and Derick, which became a part of American Stores Company in September 1964. His breadth of experience and knowledge of the drug retailing field have been significant factors in the growth of this strong operating company.

A. Balfour Brehman, Jr., 43, is president of Hardee Northern Inc., a subsidiary formed by the Company in 1969 to operate fast-food restaurants in several eastern states, under the well-known Hardee's name. Prior to joining Hardee Northern Inc., Mr. Brehman served as both an assistant secretary and an assistant counsel of the parent company, which he joined in 1961. Prior to that, he was engaged in the private practice of law with a well-known Philadelphia firm. Mr. Brehman is a graduate of the Wharton School of the University of Pennsylvania, and holds an LL.B. degree from the University of Pennsylvania School of Law. Under his able direction, 16 units have been built and placed in operation.

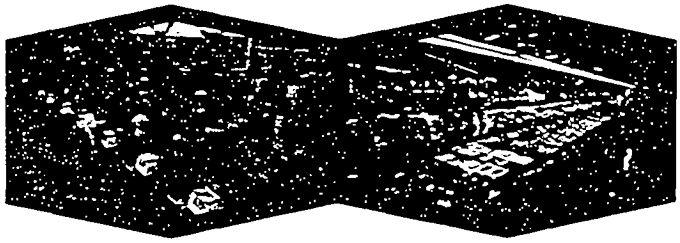
Peter F. McGoldrick
Acme Markets, Inc.

William R. Deeley
Alpha Beta Company

Gorden H. Griffith
Rea and Derick, Incorporated

A. Balfour Brehman, Jr.
Hardee Northern Inc.

FOOD STORES



The number of food stores in operation at the end of the fiscal year ended March 1974 was 742, an increase from 717 at the end of the prior fiscal year. Alpha Beta, with 29 openings, had a total of 236 food stores operating under that name. Included in this number are the first three stores in the Phoenix, Arizona area. Two of these were opened in February and one in March. The Northern California Division, served by the Milpitas distribution center now numbers 48 stores and there are 185 stores in the Southern California Division. Planned Alpha Beta food store openings in the current fiscal year include seven in the Phoenix, Arizona market, eleven in the Southern California Division, and eight in the Northern California Division. Although only ten stores were opened by Acme Markets, these and other larger stores placed in operation in the last few years generated high volume sales. A stepped-up program of seventeen new food stores is planned in the current fiscal year. The average size of the food stores opened last year was 25,000 square feet. Some of those planned for this year range up to 34,000 square feet.

Both food store companies had excellent customer response to their individual advertising and merchandising programs. Acme has featured the theme "you're going to like it here" and Alpha Beta has used the slogan "you'll like the total better at Alpha Beta". Under both banners the customer is offered a plan of every day low prices using the appeal of discount type of operation.

On April 1 Esther Cramer became Alpha Beta's Director of Consumer Affairs. Mrs. Cramer has been associated with Alpha Beta since 1971 when she began work on her recently published book "The Alpha Beta Story". In her new position she will be working with an aspect of ever increasing importance to the retail food industry.

As Acme Markets Inc. became the operating company for Eastern super markets, a new president assumed the helm. He is Peter F. McGoldrick who was introduced to you in the "Meet Our Operating Company Chief Executives" section of this report. Since his arrival Mr. McGoldrick, working with the operating and staff people at Acme Markets, has made several organizational changes designed to further improve the effectiveness of the Acme team. Several promotions were made and sharper lines of responsibility were defined, particularly in the merchandising and procurement functions. These new assignments add further strength to the top management team and bring younger men to increased responsibilities.

Throughout both food store organizations programs are underway continuously to improve the management team. Acme opened a new training school in Philadelphia during the last quarter of the year. The new center contains complete facilities for training grocery, meat and produce personnel in all aspects of store operations. It is equipped with modern, multimedia educational equipment, and store checker instruction is provided on both manual and new electronic cash registers. Alpha Beta has a well staffed and equipped training facility in La Habra, California which operates as the hub of its personnel development programs.

The American Stores Company and its operating companies continue to keep abreast of industry-wide developments in the field of electronic cash registers. Universal Product Code numbers have been assigned to all of the Company's own-brand products, and UPC symbols are appearing on these products as it becomes necessary to reorder and reprint labels. These symbols are also appearing more frequently on national-brand products. They will eventually be read by electronic scanning devices at checkout counters, eliminating manual registering.

In the meantime, the Company continues its research in the field. Electronic cash registers have been tested

by both Acme and Alpha Beta. Both companies are now installing these registers in new food stores and in the remodeling of larger stores. Scanners can be added to this equipment when UPC symbols appear on a sufficient number of products to cost justify the equipment.

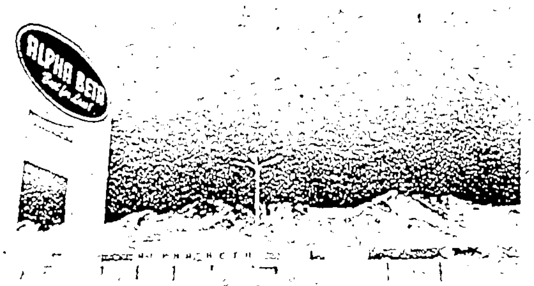
Electronic checking will not only benefit the consumer by providing a more efficient checkout service, it will develop into an invaluable tool of management by providing essential sales, marketing, inventory, buying and merchandising information via instant information retrieval.

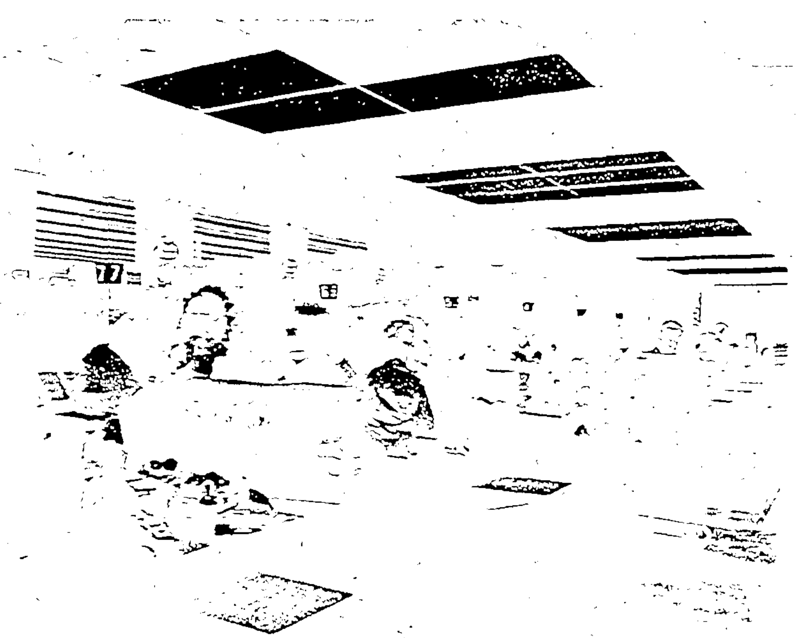
Another field in which the Company is moving ahead is that of nutritional labeling. This involves the providing of accurate nutritional information on the labels of many of our own-brand products. Included is such information as calories per serving, amounts of protein, carbohydrates and fat, as well as amounts of specified vitamins and minerals, in terms of the new U.S. Recommended Daily Allowances. At the present time, the federal government requires nutritional labeling only if any vitamin, mineral or protein has been added to the product or if nutrition claims are made for it. Nutritional labeling is optional for other food items, but the Company has been including such information on all of its products as essential data becomes available from processors and canners.

Both food companies support the adoption of the uniform meat identity standards recently recommended by the National Live Stock and Meat Board. The standards provide a system of uniform designations for retail cuts of beef, pork, lamb, veal and smoked meats, replacing the many local and regional designations which have often been a source of confusion from one area to another.

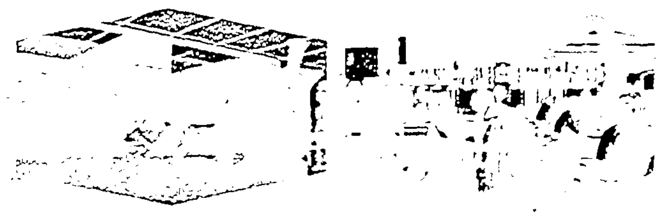
As the nation faced a severe energy crisis, steps were taken to conserve all sources of energy utilized by the Company. Lighting was curtailed in all stores, thermostats were turned down and the use of diesel fuel was sharply curtailed, while maintaining necessary transportation services.

It is estimated that during the most critical period, each of the markets consumed about 20,000 kilowatt hours of electricity less per month than when the program was placed into effect. As both an energy conservation and economy measure, all of our newer, larger stores utilize the captured waste heat from refrigeration compressors for building heat. This measure saves thousands of dollars each year in fuel costs.





DRUG STORES, FAMILY RESTAURANTS AND GENERAL MERCHANDISE



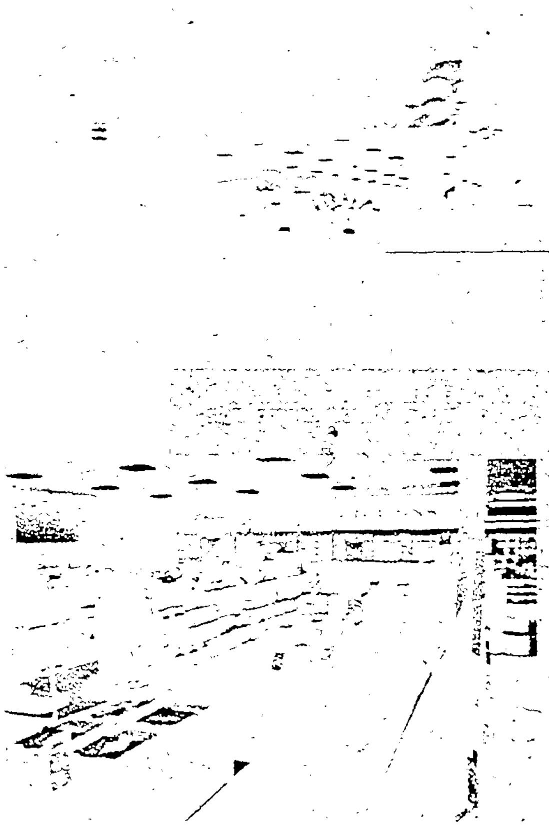
Rea and Derick, the East Coast drug subsidiary, made a strong contribution to the Company in the last year. Sales performance in the existing stores was excellent and three new stores were added. Plans call for nine new stores to open in the current fiscal year, all in the present operating area.

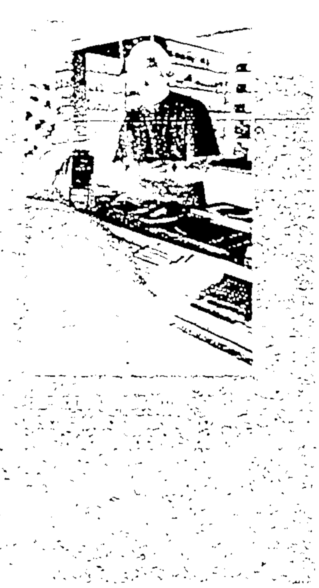
On April 1, 1974 Gorden H. Griffith moved up to chairman of the board and chief executive officer of Rea and Derick and Paul A. Morelock became president.

Mr. Morelock, 53, joined Rea and Derick as an apprentice pharmacist in 1947. After his graduation from Temple University with a B.S. degree in Pharmacy in 1949 he became a store manager. In 1957, he established one of Rea and Derick's early shopping center units, which later became the largest volume store. He was promoted to store supervisor in 1963, and in 1967 elevated to director of store operations at the company's Northumberland, Pa. headquarters. In 1970, he was elected vice president and served in that capacity until April 2, 1973 when he became executive vice president.

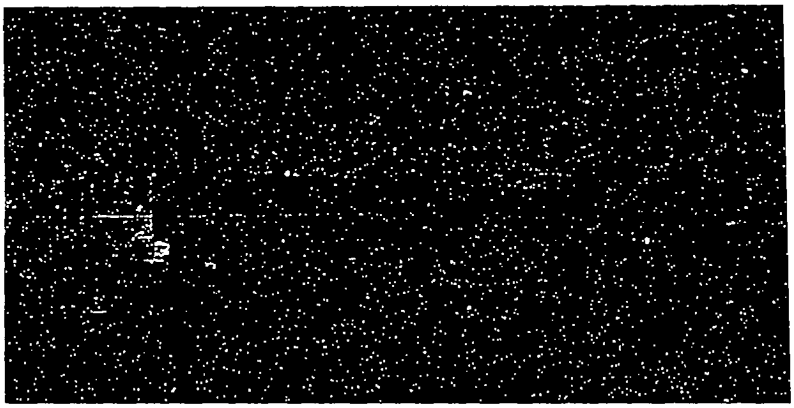
A new 216,000 square foot general merchandise distribution center will be placed in operation about October 1 near the Alpha Beta Southern California Division Distribution Center. This facility will replace the leased premises which has supplied the Alpha Beta stores with this type of merchandise. In addition to providing an expanded line of products to the food stores, it will also service the general merchandise needs of Hy-Lo and Value Fair, the West Coast drug stores and self-service department stores. Better and more efficient service will result from this combined operation.

An automated conveyor system will be installed. The entire receiving and selection system is directed by computers. The most advanced feature will be mobile turret trucks used for the movement of incoming merchandise to the rack system and for replenishment of the merchandise selection system. This will be a "first" for this equipment in operations of this type in the United States.





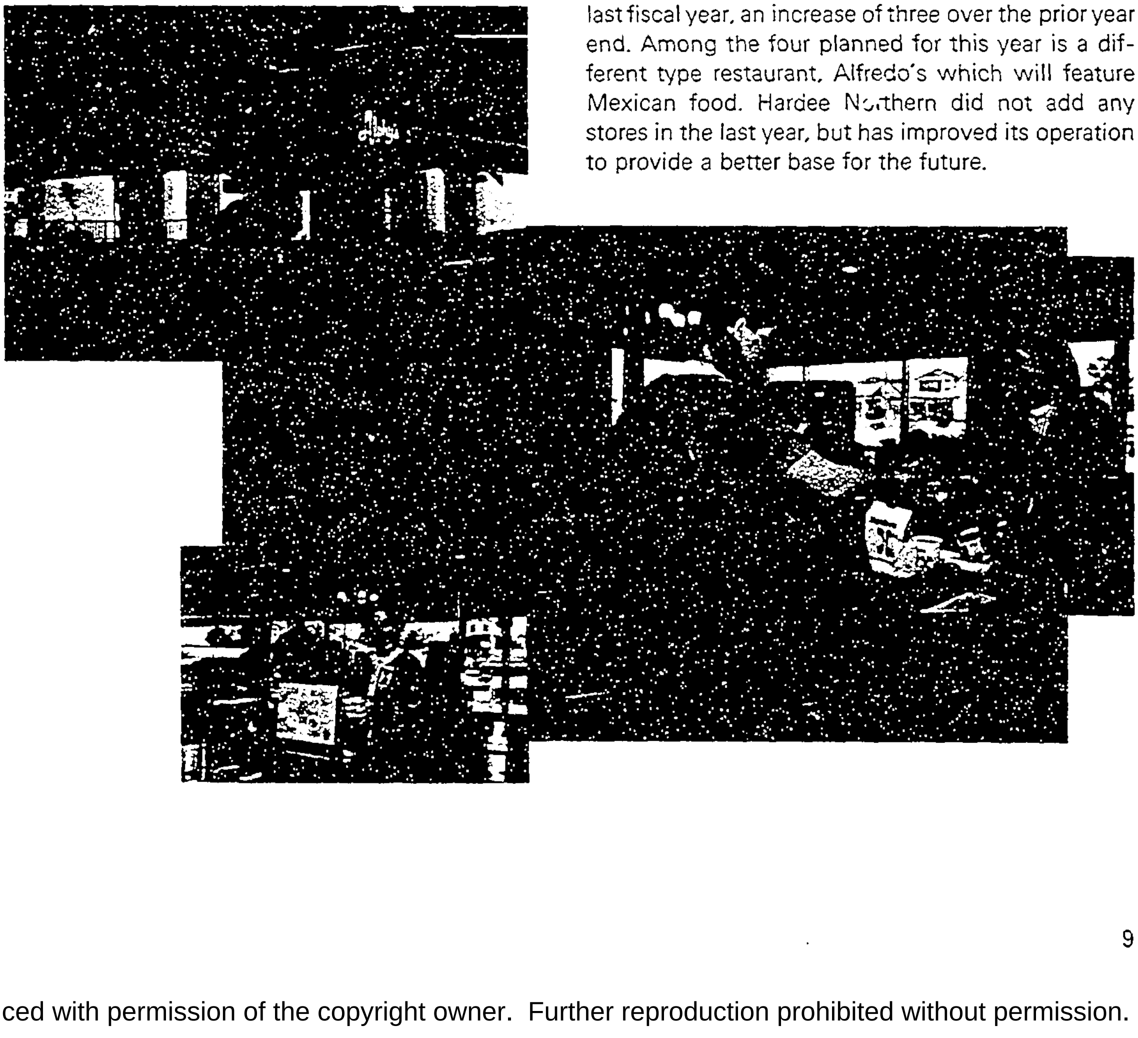
Another service facility that serves all the retail units on the West Coast is the Graphic Services Department. Just recently this department has been transferred to a new building. In these expanded quarters are housed a complete in-plant printing section, fabrication shop, silkscreen and lettering operation, plus a graphic arts department for the design and creation of art. The following graphic arts services are among those provided by this department:

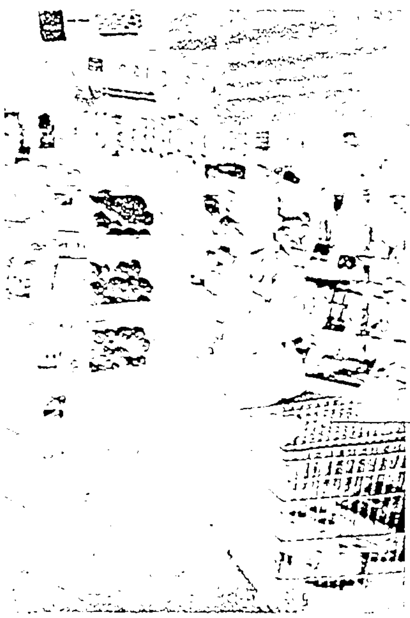


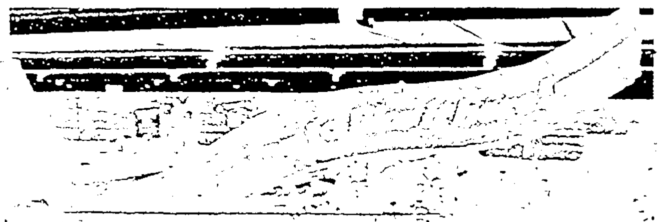
A new general merchandise distribution center in Southern California will serve the general merchandise needs of all of the western retail stores.

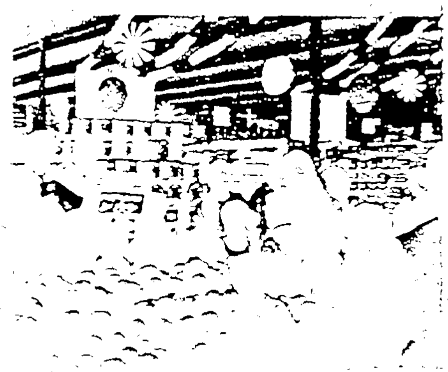
- Printing of most of the forms used by all the West Coast units.
- Building of all of the aisle directories used in Alpha Beta markets, as well as multi-purpose lettering used inside the stores.
- Printing of all signs and graphics for Alpha Beta Company, Alphy's Restaurants, Value Fair Department Stores and Hy-Lo Drug Centers.
- Printing of 8,000 - 10,000 signs per week for Alpha Beta in Northern and Southern California, Arizona, as well as Alphy's, Hy-Lo and Value Fair.
- Printing of all place mats for Alphy's Restaurants (one million per month).

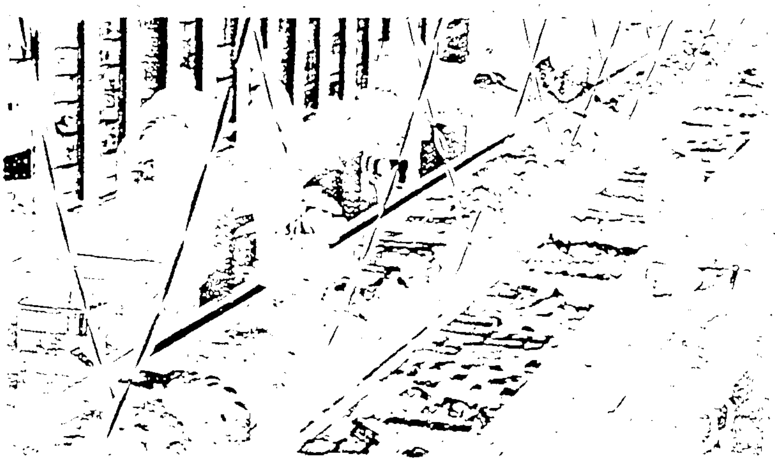
In the family restaurant field Alphy's has moved ahead, with 29 units in operation at the close of the last fiscal year, an increase of three over the prior year end. Among the four planned for this year is a different type restaurant, Alfredo's which will feature Mexican food. Hardee Northern did not add any stores in the last year, but has improved its operation to provide a better base for the future.

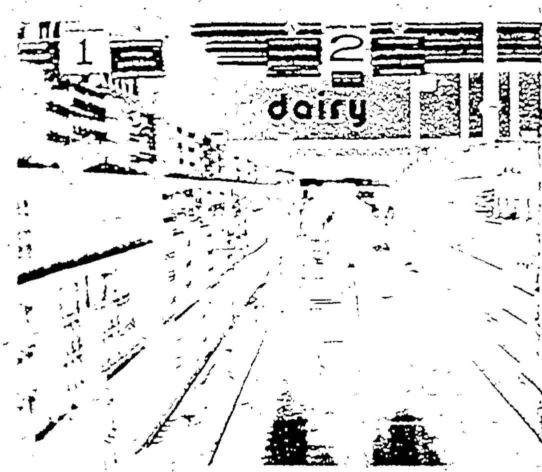


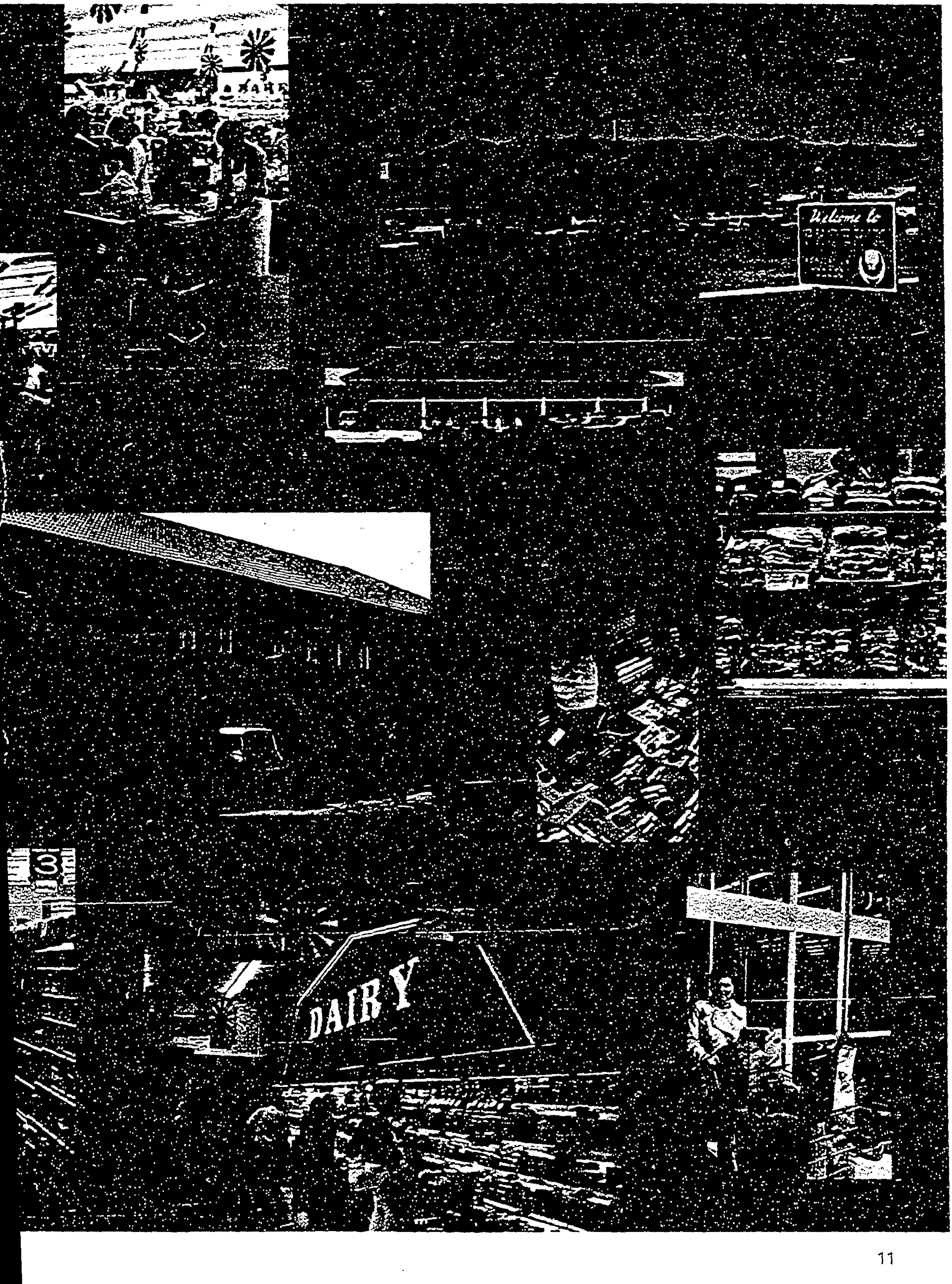









1
2
dairy

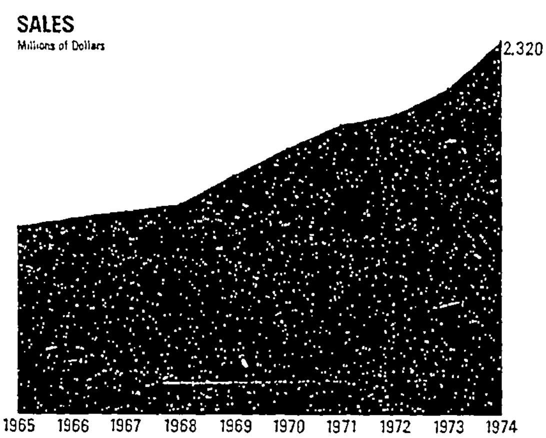

DAIRY

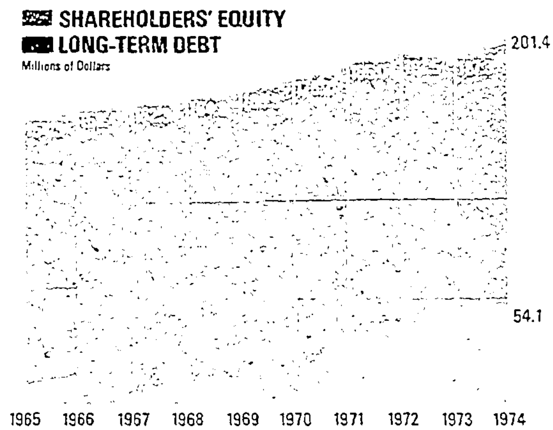
TEN YEAR FINANCIAL SUMMARY

(dollar amounts in thousands, except per share and per sales dollar figures)

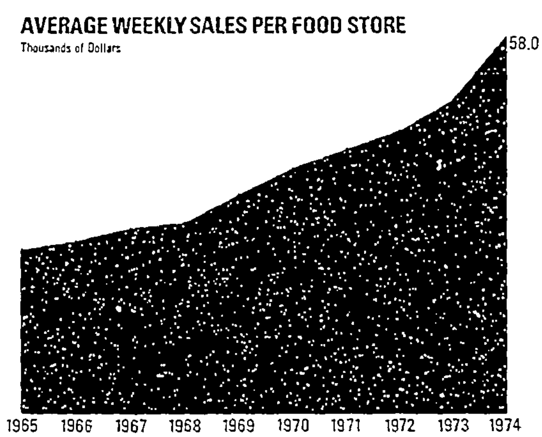
	1974	1973	1972	1971(a)
Operations:				
Sales	$ 2,320,322	2,025,300	1,861,588	1,798,719
Earnings before extraordinary charges	18,063	3,601 (b)	12,426	14,934
Cash dividends	3,828	5,231	6,831	6,479
Earnings per sales dollar	0.78¢	0.18¢	0.67¢	0.83¢
Financial Position:				
Working capital	$ 103,128	95,983	91,318	87,510
Current ratio	1.59	1.75	1.76	1.76
Plant and equipment, net	161,983	157,618	154,086	148,292
Total assets	445,284	386,428	370,020	354,623
Long-term debt	54,080	58,137	45,003	42,724
Shareholders' equity	201,362	187,288	191,489	185,030
Per Share Data (c):				
Earnings before extraordinary charges	$ 5.19	1.03 (b)	3.57	4.30
Cash dividends	1.10	1.50	1.96	1.86
Stock dividends	—	—	2%	5%
Shareholders' equity (year end)	57.87	53.70	54.92	53.37
Other Information:				
Depreciation and amortization	$ 22,143	21,882	20,130	18,630
Plant and equipment additions	32,923	30,871	39,771	30,870
Average shares outstanding	3,479,858	3,487,320	3,483,002	3,401,214
Food stores (year end)	742	717	779	787
Other stores (year end)	107	104	97	91

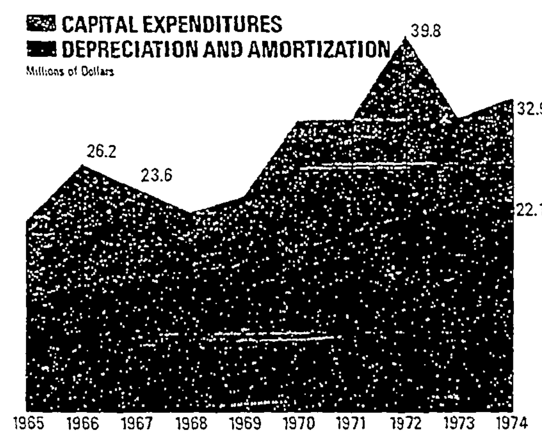
(a) 53 week year; other years 52 weeks.
(b) Earnings shown are before extraordinary charges of $2,585,000 ($.74 a share), arising from flood loss and from store closing costs.
(c) Based on average number of shares outstanding during the respective fiscal years, adjusted for stock dividends, except shareholders' equity per share which is based on year end shares outstanding, adjusted for stock dividends.





1970	1969	1968	1967	1966	1965(a)
1,650,249	1,479,522	1,302,075	1,261,137	1,206,807	1,161,198
12,530	11,001	8,630	9,588	10,567	12,884
6,142	5,927	5,815	5,564	5,348	5,127
0.76¢	0.74¢	0.66¢	0.76¢	0.88¢	1.11¢
59,151	67,338	70,016	57,805	73,036	76,299
1.44	1.66	1.82	1.71	2.01	2.19
136,715	121,142	114,646	114,221	110,602	97,881
336,448	298,998	277,931	260,861	259,003	240,461
12,656	14,306	14,844	5,191	15,743	11,737
176,713	169,898	164,776	162,290	159,369	154,263
3.62	3.18	2.50	2.76	3.02	3.76
1.79	1.76	1.73	1.65	1.57	1.49
4%	2%	2%	5%	5%	5%
50.94	49.14	47.69	46.88	45.65	45.04
16,750	15,018	14,257	13,726	12,802	11,834
30,667	22,625	20,856	23,638	26,198	20,085
3,235,914	3,102,135	3,040,529	2,993,728	2,877,990	2,680,992
804	813	827	827	854	878
77	74	67	63	50	51





AMERICAN STORES COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

Fiscal years ended March 30, 1974 and March 31, 1973

CURRENT EARNINGS	1974	1973
Sales	$2,320,322,000	2,025,300,000
Cost of sales and operating expenses:		
Cost of merchandise sold, including warehousing and transportation expenses	1,866,172,000	1,628,448,000
Wages, rents, advertising, administrative and other operating expenses	394,670,000	366,834,000
Depreciation and amortization	22,143,000	21,882,000
	2,282,985,000	2,017,164,000
Operating profit	37,337,000	8,136,000
Other income (deductions):		
Non-operating items, net	2,940,000	1,337,000
Interest expense	(5,699,000)	(5,172,000)
Earnings before income taxes and extraordinary charges	34,578,000	4,301,000
Federal and state income taxes (note 3)	16,515,000	700,000
Earnings before extraordinary charges	18,063,000	3,601,000
Extraordinary charges, less related income tax benefit $2,485,000 (note 8)	—	(2,585,000)
Net earnings	$ 18,063,000	1,016,000
Per share data:		
Earnings before extraordinary charges	$ 5.19	1.03
Extraordinary charges	—	(.74)
Net earnings	$ 5.19	.29

EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	$ 50,750,000	54,965,000
Net earnings for the year	18,063,000	1,016,000
	68,813,000	55,981,000
Deduct cash dividends—$1.10 a share (1973—$1.50 a share)	3,828,000	5,231,000
Balance at end of year	$ 64,985,000	50,750,000

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Fiscal years ended March 30, 1974 and March 31, 1973

SOURCE	1974	1973
Earnings before extraordinary charges	$ 18,063,000	3,601,000
Expenses charged against earnings not involving the current expenditure of funds:		
Depreciation and amortization	22,143,000	21,882,000
Deferred income taxes	417,000	617,000
Other	126,000	80,000
Total funds provided from operations, before extraordinary charges	40,749,000	26,180,000
Extraordinary charges, excluding $1,176,000 not requiring current funds	—	(1,409,000)
Long-term borrowing	—	16,375,000
Disposals of properties	6,415,000	4,516,000
Proceeds from sales of common stock pursuant to exercise of options	—	14,000
Total source of funds	47,164,000	45,676,000
DISPOSITION		
Expended for plant and equipment	32,923,000	30,871,000
Reduction of long-term debt	4,057,000	3,241,000
Cash dividends	3,828,000	5,231,000
Investments and deferred charges (reduction)	(1,074,000)	1,283,000
Purchase of 10,000 shares common treasury stock	240,000	—
Miscellaneous, net	45,000	385,000
Total disposition of funds	40,019,000	41,011,000
Increase in working capital	$ 7,145,000	4,665,000
CHANGES IN WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash and marketable securities	$ 9,491,000	(4,983,000)
Inventories	39,097,000	26,972,000
Properties to be developed and sold within one year	4,829,000	(6,013,000)
Other current assets	2,274,000	(4,303,000)
	55,691,000	11,673,000
Increase (decrease) in current liabilities:		
Accounts payable and current instalments of long-term debt	27,674,000	9,728,000
Accrued expenses and taxes	17,352,000	3,480,000
Construction loan	3,520,000	(6,200,000)
	48,546,000	7,008,000
Increase in working capital	$ 7,145,000	4,665,000

See accompanying notes to financial statements.

AMERICAN STORES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 30, 1974 and March 31, 1973

ASSETS	1974	1973
Current assets:		
Cash	$ 7,427,000	16,155,000
Short-term marketable securities, at cost	31,943,000	13,724,000
Receivables	11,310,000	9,267,000
Inventories, at lower of cost (average or first-in, first-out) or market	212,050,000	172,953,000
Prepaid expenses	6,394,000	6,163,000
Properties to be developed and sold within one year	9,694,000	4,865,000
Total current assets	278,818,000	223,127,000
Investments, at cost or less	3,453,000	4,536,000
Plant and equipment, at cost:		
Land	14,983,000	18,273,000
Buildings	64,775,000	62,854,000
Machinery, equipment and fixtures	169,101,000	156,127,000
Leasehold costs and improvements	27,477,000	26,458,000
	276,336,000	263,712,000
Less accumulated depreciation and amortization	114,353,000	106,094,000
Net plant and equipment	161,983,000	157,618,000
Deferred charges, etc.	1,030,000	1,147,000
	$445,284,000	386,428,000

See accompanying notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	1974	1973
Current liabilities:		
Current instalments of long-term debt (note 2)	$ 2,588,000	2,714,000
Accounts payable	117,612,000	89,812,000
Accrued expenses	36,544,000	33,380,000
Federal and state income taxes (note 3)	15,426,000	1,238,000
Construction loan on properties to be sold	3,520,000	—
Total current liabilities	175,690,000	127,144,000
Long-term debt, excluding current instalments (note 2)	54,080,000	58,137,000
Deferred income taxes (note 3)	12,389,000	11,972,000
Reserve for self insurance, etc.	1,763,000	1,887,000
Shareholders' equity:		
Preferred stock of $1 par value. Authorized 1,000,000 shares; issued none	—	—
Common stock of $1 par value. Authorized 10,000,000 shares; issued 3,507,234 shares (note 4)	3,507,000	3,507,000
Capital in excess of par value of common stock (note 5)	133,889,000	133,903,000
Earnings retained for use in the business, less amount capitalized through stock dividends (note 2)	64,985,000	50,750,000
	202,381,000	188,160,000
Less 27,376 shares common treasury stock, at cost (1973—19,876 shares)	1,019,000	872,000
Total shareholders' equity	201,362,000	187,288,000
	$445,284,000	386,428,000

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Definition of Fiscal Year

The company's fiscal year ends on the Saturday nearest to March 31. Fiscal year 1974 ended March 30, 1974; fiscal year 1973 ended March 31, 1973. Both of these years comprised 52 weeks.

Basis of Consolidation

Effective December 29, 1973 the name of the parent company was changed from Acme Markets, Inc. to American Stores Company and retail food operations in the east were transferred to a new subsidiary. The restructuring had no effect on the consolidated financial statements which include the accounts of the company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Depreciation Policy

Depreciation and amortization charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items. For income tax purposes, depreciation is computed by accelerated methods applied to composite groupings of assets. During fiscal 1974, the company extended the useful lives of certain company-owned store buildings (with no material effect on earnings) to recognize a lengthened economic life.

Maintenance, repairs, renewals and minor betterments are charged to earnings. Where betterments are significant in amount and tend to increase operating efficiency or capacity, they are capitalized.

Plant and equipment which has become fully depreciated or fully amortized is charged off against the related accumulated depreciation or amortization.

Income Taxes

The company provides deferred income taxes or credits where there are timing differences in recording income and expenses for financial reporting and tax purposes. These timing differences relate primarily to accelerated depreciation and reserves not currently tax deductible.

The company reduces its current income tax provision for investment tax credits in the year in which the credits arise.

Pension Costs

Pension costs are actuarially computed and include amortization of prior service cost over periods ranging to forty years. The company's policy is to fund pension costs accrued.

Per Share Data

Per share data are based on the average number of common shares outstanding during the year. Common share equivalents in the form of stock options are excluded from the calculation since they have no material dilutive effect on per share figures.

(2) Indebtedness

A summary of long-term debt at March 30, 1974 and March 31, 1973 is shown below:

	1974	1973
9⅞% sinking fund debentures due August 1, 1990	**$25,000,000**	25,000,000
Notes payable due June 30, 1980	**15,000,000**	15,000,000
9½% mortgage loan due December 1, 1996	**7,996,000**	8,867,000
5¾% notes payable due August 1, 1975	**2,400,000**	4,000,000
Other notes payable	**2,636,000**	4,109,000
Purchase agreement	**3,636,000**	3,875,000
	56,668,000	60,851,000
Current instalments	**2,588,000**	2,714,000
Long-term	**$54,080,000**	58,137,000

Sinking fund payments, sufficient to retire $1,560,000 principal amount of the 9⅞% sinking fund debentures, are due annually beginning August 1, 1975.

The notes payable due June 30, 1980 bear interest at prime rate plus ½% (9¾% at March 30, 1974), with a maximum average rate of 7½% to maturity. The notes are payable in quarterly instalments of $500,000 beginning March 31, 1976 with the remainder of $6,500,000 payable at maturity.

The 9½% mortgage loan is payable in monthly instalments of $100,000 through January 1, 1984 and $40,000 thereafter (applied first to interest and then to principal) and is secured by certain bakery real estate and fixtures.

The 5¾% notes are to be repaid in equal quarterly instalments of $400,000.

The other notes payable bear interest at various rates, generally from 5¾% to 9⅜%, are to be repaid by 1991 and are in part secured by deeds of trust on certain real estate. The purchase agreement relates to a distribution center property and requires equal semi-annual payments through 1986 applied first to interest (currently 2⅞%) and the remainder to principal.

The aggregate amounts of long-term debt maturing in each of the five fiscal years subsequent to March

30, 1974 are: 1975—$2,588,000; 1976—$3,821,000; 1977—$4,590,000; 1978—$4,660,000 and 1979—$4,704,000.

The various loan agreements impose certain restrictions with respect to maintenance of working capital, payment of dividends and purchase of capital shares. Under the most restrictive covenant, earnings retained for use in the business in the approximate amount of $30,000,000 at March 30, 1974 were free of restrictions.

During fiscal 1974, short-term borrowings averaged $5,036,000 (maximum $16 million) at an average annual interest cost of approximately 7.9%.

(3) Income Taxes

Federal and state income taxes charged to earnings are summarized below:

	1974	1973
Current:		
Federal (before investment credits)	**$14,860,000**	1,271,000
Investment credits	**(1,408,000)**	(1,602,000)
State	**2,646,000**	414,000
Deferred	**417,000**	617,000
	$16,515,000	700,000

The effective Federal income tax rate for 1974 was 48% before application of investment credits. Deferred taxes relate principally to the effects of accelerated depreciation.

The Federal income tax returns of the company for fiscal years 1969 and 1970 have been examined by the Internal Revenue Service; and, all issues have been settled except one relating to imposition of a minor deficiency which the company is contesting. Management believes that any adjustments arising from the final tax settlement for these years will not have a material effect on the financial position of the company.

(4) Stock Options

Under the company's stock option plan approved by the shareholders in 1964, there were outstanding at March 30, 1974 options granted to officers and key management employees to purchase 87,041 shares common stock at prices ranging from $22.38 to $34.12, such prices being market price on the respective dates of granting, adjusted for subsequent stock dividends. The options are exercisable on a cumulative basis over a period of five years or less and expire on or before December 13, 1978. The changes in options outstanding during the two years are summarized as follows:

	1974	1973
Shares under option at beginning of year	**47,665**	66,273
Additions (deductions):		
Options granted	**84,686**	9,900
Options exercised	**—**	(400)
Options expired or canceled	**(45,310)**	(28,108)
Shares under option at end of year (at an average option price of $23.16 at March 30, 1974)	**87,041**	47,665

Of the options canceled during fiscal year 1974, 41,456 shares were voluntarily surrendered by the holders. Subsequently, options for 40,228 shares were issued to these holders at a lower exercise price. Such options are not exercisable by the holders until the original terms of the canceled options have expired. At March 30, 1974 an additional 31,622 shares common stock were reserved for future option grants.

(5) Capital in Excess of Par Value of Common Stock

Changes in capital in excess of par value of common stock are as follows:

	1974	1973
Balance at beginning of year	**$133,903,000**	133,889,000
Excess of cost over market value of 2,500 common treasury shares issued as a bonus	**(14,000)**	—
Excess of sales proceeds over par value of 400 common shares sold pursuant to exercise of stock options	**—**	14,000
Balance at end of year	**$133,889,000**	133,903,000

(6) Lease Commitments

At March 30, 1974 the company and subsidiaries were lessees under leases covering retail locations and certain distribution center properties. The company conducts the major part of its operations from leased premises and the initial lease terms generally range from 15 to 25 years. Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals. The company has classified its lease obligations as either non-capitalized financing leases or other leases in accordance with the requirements of the Securities and Exchange Commission. Rental expense for fiscal years 1974 and 1973 was as follows:

NOTES TO FINANCIAL STATEMENTS (continued)

(6) Lease Commitments, Continued

	1974	1973
Financing leases:		
Minimum rentals	**$17,298,000**	14,822,000
Rentals based on sales	**672,000**	659,000
Sublease rentals	**(637,000)**	(515,000)
	17,333,000	14,966,000
Other leases:		
Minimum rentals	**13,755,000**	12,584,000
Rentals based on sales	**579,000**	542,000
Sublease rentals	**(796,000)**	(870,000)
	13,538,000	12,256,000
	$30,871,000	27,222,000*

*Rental expense for 1973 has been restated to exclude taxes and other costs paid by the company which were formerly classified as rent.

Aggregate future minimum commitments (excluding taxes, insurance and maintenance expenses where payable by the company) are approximately as follows for the fiscal years indicated:

Years (000's omitted)	Net, all leases	Financing leases	Other leases	Sublease rental income Financing leases	Sublease rental income Other leases
1975	$ 30,355	18,438	13,350	(606)	(827)
1976	28,678	18,208	11,698	(575)	(653)
1977	26,972	18,032	10,053	(538)	(575)
1978	24,942	17,781	8,080	(513)	(406)
1979	23,280	17,541	6,449	(477)	(233)
1980-1984	97,355	80,249	19,001	(1,441)	(454)
1985-1989	62,802	57,437	6,069	(704)	—
1990-1994	33,518	33,070	848	(400)	—
Thereafter	3,746	3,588	172	(14)	—
	$331,648	264,344	75,720	(5,268)	(3,148)

The present value of the minimum lease commitments for financing leases was $219,000,000 at March 30, 1974 and $209,000,000 at March 31, 1973 based on calculations using interest rates ranging from 4¼% to 10¼%. The weighted average interest rates were 7.2% for fiscal 1974 and 7.0% for 1973. If all of the above noncapitalized financing leases were capitalized, the related property rights amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability, net earnings for fiscal years 1974 and 1973 would have been reduced $1,190,000 and $1,055,000, respectively. The amounts of amortization and interest cost included in the calculations were the following:

	1974	1973
Amortization	**$ 9,489,000**	8,327,000
Interest cost	**10,478,000**	8,951,000

(7) Pension Plans

Substantially all employees of the company and its subsidiaries are covered by funded pension plans. Employees who are members of bargaining units are covered by union-negotiated pension plans to which the company makes contributions based on hours worked. For other eligible employees, the company provides pension benefits through group annuity contracts with a life insurance company, which benefits were liberalized effective January 1, 1974. The total charge to earnings for all plans for the year ended March 30, 1974 was approximately $14,756,000 compared with $12,315,000 for the preceding fiscal year.

(8) Extraordinary Charges

Shown as an extraordinary charge is the loss of $1,523,000 after related income tax benefit of $1,505,000 due to flooding caused by Tropical Storm Agnes in fiscal 1973.

During the last quarter of fiscal 1973, the company closed 67 small, low-volume supermarket units which, because of a change in merchandising emphasis, including the dropping of trading stamps, were no longer competitive. Provision for losses attributable to discontinuing these operations and disposing of the properties and leases, $1,062,000 after income tax benefit of $980,000, has also been shown as an extraordinary charge. Operating results of the closed stores are included in operations for the year.

ACCOUNTANTS' REPORT

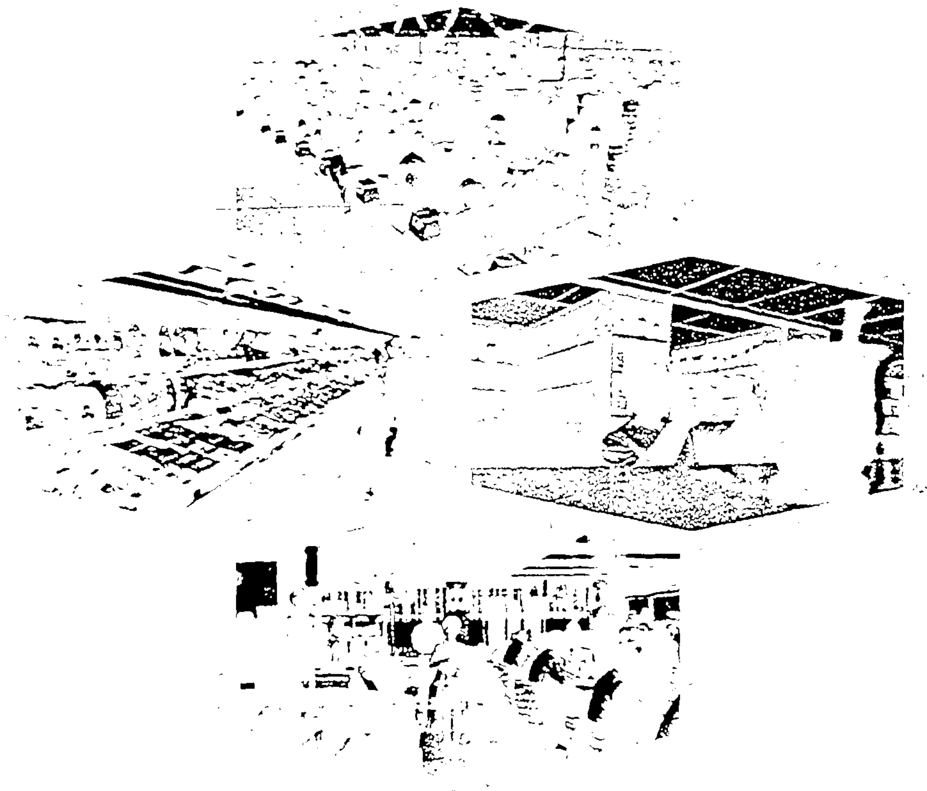
The Shareholders and Board of Directors
American Stores Company:

We have examined the consolidated balance sheets of American Stores Company (formerly Acme Markets, Inc.) and subsidiaries as of March 30, 1974 and March 31, 1973, and the related consolidated statements of earnings and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of American Stores Company and subsidiaries at March 30, 1974 and March 31, 1973, and the results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

1500 Walnut Street, Philadelphia, Pa. 19102
May 13, 1974



AMERICAN STORES COMPANY

EXECUTIVE OFFICES

One Rollins Plaza
Wilmington, Delaware 19803

ANNUAL MEETING

The annual meeting
of shareholders will be held in the
Gold Ballroom
Hotel du Pont
11th and Market Streets
Wilmington, Delaware, on Thursday
June 27, 1974 at 2:00 p.m.

TRANSFER AGENT

Bankers Trust Company
485 Lexington Avenue
New York, New York 10017

REGISTRAR

First National City Bank
New York, New York

STOCK EXCHANGES

New York Stock Exchange
PBW Stock Exchange

SHAREHOLDER COMMUNICATIONS

John W. Edstrom, Secretary
American Stores Company
One Rollins Plaza
Wilmington, Delaware 19803
(302) 571-8733

AMERICAN STORES COMPANY

One Rollins Plaza
Wilmington, Delaware 19803

Printed in U.S.A.